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## Review of *Globalization and Poverty*

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## Review of *Globalization and Poverty*

### **Abstract**

[Excerpt] “Globalization and Poverty” contains the papers from a 2003 NBER pre-conference and 2004 conference. Conference volumes are often uneven. This one, though, is really interesting

### **Keywords**

globalization, poverty, income inequality, development

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### **Comments**

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Review of *Globalization and Poverty*, by Ann Harrison

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“Globalization and Poverty” contains the papers from a 2003 NBER pre-conference and 2004 conference. Conference volumes are often uneven. This one, though, is really interesting.

The volume is divided into four parts. Following an introduction by the editor, Ann Harrison, they are: Part I. Global (Cross-Country) Analyses. Part II. Country Case Studies of Trade Reform and Poverty. Part III. Capital Flows and Poverty Outcomes. Part IV. Other Outcomes Associated with Globalization.

The papers are mainly empirical, and I return to the lessons from them at the end of this review. For me, however, the highlight was the set of three theoretical papers in Part I and the discussions of them.

Emma Aisbett offers a provocative lead chapter in which she develops two main points. The first is that the theory and the empirical evidence on globalization and poverty leave doubt about whether globalization is beneficial; the second is that people's interpretations of the available evidence reflects their values and beliefs about the process. Part of what is going on is the various meanings of the phrases “worsening inequality” and “rising inequality,” which she writes about carefully. She concludes, “‘Good’ is not good enough. We owe it to the world’s poor to do better.” This chapter so provoked her discussant, Xavier Sala-i-Martin, that he was moved to write: “Emma Aisbett has written an interesting paper that raises more questions than answers as to whether the debate in which the ‘critics’ want to engage is useful or is a complete waste of time.”

The second chapter, by Donald R. Davis and Prachi Mishra, narrates why they think “Stolper-Samuelson is Dead and Other Crimes of Theory and Data.” In their view, Stolper-Samuelson is more than a “theory crime”; it is a “theory felony.” As they write, “theory felonies occur when we are so entranced by the elegance of our toy models that we lose sight of the

question we are trying to answer, indeed come to believe that we have provided an answer even when clearly central aspects of the problem are addressed inappropriately.” They continue, “If we use it, as we so often have, as if it provides a reliable answer to [the question of the impact of trade liberalization] of real human significance, then it is worse than wrong — it is dangerous.” The aspects that the authors want recognized in improved models are imported intermediate goods, the fact that rich and poor countries produce different goods, Dixit-Stiglitz-type production, and costs of trade.

William Easterly in his chapter points the way by showing how the models should be modified to provide greater realism. The standard factor endowments model suggests that globalization potentially benefits poor workers in poor countries in three ways: by giving them access to inflows of capital, by giving them the opportunity to migrate to rich countries, and by giving them market access for their goods. Easterly, however, presents an alternative: a productivity differences model. He writes, “Productivity differences to explain patterns of globalization and poverty are a nuisance! ... We need new models to understand the productivity channels that seem to be so important for so many globalization and poverty outcomes (often disappointing outcomes).” Aart Kraay, in his discussion of Easterly’s chapter, adds sovereign risk to the mix.

Returning to Ann Harrison’s introduction, the empirical contributions in this volume are nicely summarized. Five lessons are highlighted: 1. The poor in countries with an abundance of unskilled labor do not always gain from trade reform. 2. The poor are more likely to share in the gains from globalization when there are complementary policies in place. 3. Export growth and incoming foreign investment have reduced poverty. 4. Financial crises are costly to the poor. 5. Globalization produces both winners and losers among the poor.

Harrison also raises five research questions for the future: 1. What is the relationship between globalization and poverty in the aggregate cross-country data? 2. Who among the poor are the winners from globalization? 3. How do we integrate the dynamic effects of industrial-country trade and aid policies? 4. Can we identify the dynamic effects of industrial-country trade and aid policies? 5. Can we better identify the complementarities between measures of globalization and other policies?

After finishing this book, I found myself wanting to fast-forward to see what the improved models look like and learn the answers to the research questions posed. I will be eager to follow this line of work and watch the good citizenship awards of the future replace the crimes and felonies of the past.